

**TENNESSEE GENERAL ASSEMBLY  
FISCAL REVIEW COMMITTEE**



**FISCAL NOTE**

**HB 1766 - SB 2012**

March 10, 2011

**SUMMARY OF BILL:** Exempts from state and local sales tax the retail sale of water when used for the production of food or fiber for human or animal consumption, for growth of a horticultural product for sale, for planting, harvesting, raising or processing farm products at a farm, nursery or greenhouse, and for the operation of farm irrigation systems.

**ESTIMATED FISCAL IMPACT:**

**Decrease State Revenue - \$412,700**

**Decrease Local Revenue - \$174,300**

**Assumptions:**

- According to the Department of Revenue (DOR), water used by farmers and nurserymen is not sales tax exempt under current law.
- According to DOR, and based on data from the National Agricultural Statistics Service at the U.S. Department of Agriculture, total utility expenses for Tennessee farms in 2007 was \$54,900,000.
- Three percent annual growth for utility expenses since 2007.
- Utility expenses for Tennessee farms are estimated to be \$61,790,434 ( $\$54,900,000 \times 103\% \times 103\% \times 103\% \times 103\%$ ) for FY11-12. This number is assumed to remain constant in subsequent years.
- Ten percent of utility expenses for Tennessee farms account for water consumption used for the purposes specified in this bill.
- Taxable water consumption is estimated to be \$6,179,043 ( $\$61,790,434 \times 10\%$ ) per year.
- A state sales tax rate of 7.0 percent and a local option sales tax rate of 2.5 percent.
- Pursuant to Tenn. Code Ann. § 67-6-103(a)(3)(A), local governments receive 4.5925 percent of state sales tax revenue as state-shared sales tax revenue.
- The decrease in state revenue will be \$412,669 [ $(\$6,179,043 \times 7.0\%) - (\$6,179,043 \times 7.0\% \times 4.5925\%)$ ].
- The decrease in local government revenue will be \$174,340 [ $(\$6,179,043 \times 2.5\%) + (\$6,179,043 \times 7.0\% \times 4.5925\%)$ ].

**CERTIFICATION:**

The information contained herein is true and correct to the best of my knowledge.

A handwritten signature in blue ink, appearing to read "James W. White". The signature is fluid and cursive, with the first name "James" written in a smaller, more compact script than the last name "White".

James W. White, Executive Director

/rnc